



## **H.R. 2206 – U.S. Troop Readiness, Veterans’ Care, Katrina Recovery, and Iraq Accountability Appropriations Act for FY2007**

### **Executive Summary**

The House will be considering two amendments to the Senate amended version of H.R. 2206. These amendments contain the funding amounts for the Global War on Terrorism, language similar to the “Warner amendment” in relation to Iraq as well as additional non-security funding. The provisions that previously restricted the President and his commanders have been removed from the legislation. Furthermore, the overall legislation has been reduced by over \$4 billion to a total cost of \$119.996 billion. The current legislation –with both amendments – would be over \$17 billion above the President’s original request. Of the reductions, over \$2 billion were from non-security accounts.

These amendments also contain \$40 million for Kansas (in response to tornado damage) and increased construction costs for Army Corps construction in New York (in response to a FEMA disaster). Significant reductions include the elimination of LIHEAP funding (\$400 million) and the elimination of avian influenza funding through HHS.

A significant portion of H.R. 2207 (the agriculture supplemental passed by the House) is also included in this legislation (Section IX).

Amendment 1 includes Titles III – X and amendment 2 includes Titles I and II. The non-security funding is included in amendment 1. Both amendments, however, continue military funding, but amendment 2 is closer to the President’s original request.

### **Floor Situation**

The House of Representatives passed the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 (H.R. 2206) by a recorded vote of 221 - 205 ([Roll no. 333](#)), on May 10, 2007. The Senate received the bill and, with an amendment, passed H.R. 2206 by unanimous consent.

This Senate amendment was a sense of Congress that “no action should be taken to undermine the safety of the Armed Forces of the United States or impact their ability to complete their assigned or future missions.” It was offered by Senator Harry Reid (D-NV) and the amendment was agreed to by unanimous consent.

The House of Representatives will debate the Senate amendment to H.R. 2206 on the floor today, May 24, 2007, and is being considered under a closed rule. The Rule:

- Provides for the consideration of the Senate amendment to H.R. 2206.
- Provides for one hour of debate equally divided and controlled by the Chairman and Ranking Member of the Committee on Appropriations.
- Makes in order 2 amendments (both offered by Rep. Obey) to the Senate amendment. These 2 amendments are essentially 2 bills that are being considered as amendments for procedural purposes. The first amendment pertains to domestic spending and the second amendment covers funding for Iraq and Afghanistan. The rule provides for no separate debate on the amendments.

*\*Note: The texts of the 2 amendments were not made available until 5:00 AM this morning and they provide for additional spending.*

- The rule does not provide the minority with the ability to amend the 2 amendments on the floor. A motion to recommit also is not granted under this rule.
- Allows for a separate vote on the 2 amendments. However, if both amendments are adopted, they will be combined into 1 amendment to the Senate amendment to H.R. 2206.
- The Chair may postpone consideration of the amendments to a time designated by the speaker.

**\*\*** The rule also makes in order a bill, H.R. 2451, for consideration as an amendment to the **FY2008** supplemental appropriations for military operations in Iraq and Afghanistan. The House will **NOT** be voting on this today as it is an amendment to a bill to be considered at a future time.

H.R. 2451 requires withdrawal from Iraq to commence within 90 days of enactment of the **FY2008** supplemental, and requires that withdraw be completed by June 30, 2008. The text of this bill is very similar to H.R. 2237 ([Legislative Digest for H.R. 2237](#)) which was introduced by Rep. McGovern (D-MA), and failed passage by a recorded vote of 171 - 255 ([Roll no. 330](#)), on May 10, 2007.

## **Background**

In February, along with the release of the President's budget for FY 2008, the Administration released its FY 2007 supplemental request. The President's request called for \$93.4 billion in emergency supplemental appropriations for the Global War on Terror (GWOT) and a total of \$103 billion. \$70 billion was provided for the GWOT in the FY 2007 Defense Appropriations bill (P.L. 109-289).

On March 15, 2007, the House Appropriations Committee held a markup and approved the House version of the supplemental (H.R. 1591) by a vote of 36 to 28. H.R. 1591 included language that would set a timetable for withdrawal of the troops from Iraq and contained numerous provisions that were non-emergency funding for programs un-related to the Global War on Terrorism, such as \$25 million for spinach producers, \$100 million for citrus, \$400 million for LIHEAP, and \$5 million for aquaculture. H.R. 1591 passed on March 29, 2007 by a vote of 218 to 212 (Roll Call Vote 186).

The Conference Report accelerated the timetable by which American troops would withdraw from Iraq and imposes funding and tactical restrictions on our commanders on the ground and our troops in the field. Both the National Intelligence Estimate and the Iraq Study Group have laid out why legislating a date certain for surrender is detrimental to our troops' efforts in Iraq.

The bill required the President to provide a determination by July 1, 2007, on whether the Government of Iraq is making progress on certain political and security criteria. If the President failed to make any of these determinations, U.S. troops would begin withdrawing from Iraq no later than July 1, 2007, with a goal of completing the withdrawal within 180 days.

Even if the President certified that the Iraqi Government was making progress, H.R. 1591 would have required U.S. troops to begin withdrawing by October 1, 2007, with a goal of completing the withdrawal within 180 days.

The supplemental conference report was vetoed on May 1, 2007 by President Bush and the House was unable to override the veto by a vote of 222 to 203 (Roll Call 276).

Chairman David Obey (D-WI) introduced a short-term war funding bill, H.R. 2206, on May 8, 2007.

Unlike the Conference Report that the President vetoed, H.R. 2206 did not directly include troop withdrawal requirements. Instead, the bill takes a two step approach. It provides \$42.8 billion for the Pentagon immediately (approximately 43% of the funding level provided in the H.R. 1591 Conference Report). This funding would support operations in the Global War on Terror for approximately 3 months.

In July, following submission of the President's report on progress in Iraq, the House and Senate would have had to pass a second resolution to release the additional \$52.8 billion in funding. H.R. 2206 laid out extremely strict rules for considering the second resolution. It is at this point that language could have been inserted to withdraw troops within 180 days.

HR 2206 passed by a vote of 221 to 205, with 195 Republicans voting against the legislation.

*Note: Chairman Obey also introduced the Agriculture Disaster Assistance and Western States Emergency Unfinished Business Appropriations Act for FY2007 (H.R. 2207) on May 8, 2007. This bill includes significant portions of the agriculture funding that was incorporated into the previous War Funding Supplemental (H.R. 1591). H.R. 2207 passed by a vote of 302 to 120, with 115 Republicans voting against the legislation.*

## **Summary**

Title III funding is included in amendment #1, which is the legislation that focuses primarily on non-defense spending. Title I primarily contains the funding for ongoing military operations in Iraq and Afghanistan, which will be considered as amendment #2. However, please keep in mind that many defense and security accounts contain funding in both Title I and Title III.

While Title I is closer to the President's original request, the summary below contains the total for each account as well as the total in each title for the accounts. Therefore, it is possible to differentiate between Title I funding and Title III funding, while also being able to view the totals.

## **Titles I, Titles II and Title III**

### Iraq Provisions (Title I)

The latest version of the Emergency Troop Funding bill utilizes language similar to the Warner amendment, which failed to garner the 60 votes required to invoke cloture in the Senate on May 16, 2007. Unlike prior versions passed by the House that would have imposed a withdrawal timeline (H.R. 1591, H.R. 1591 Conference Report) or funded the troops piecemeal (HR 2206), this version directs the President to withdraw U.S. troops if the Government of Iraq passes a resolution requesting their removal.

The bill also establishes benchmarks for the Iraqi government, including:

- Forming a Constitutional Review Committee and then completing the Constitutional review;
- Enacting and implementing legislation on de-Baathification;
- Enacting and implementing legislation to ensure the equitable distribution of hydrocarbon resources of the people of Iraq without regard to the sect or ethnicity of recipients, and enacting and implementing legislation to ensure that the energy resources of Iraq benefit Sunni Arabs, Shia Arabs, Kurds, and other Iraqi citizens in an equitable manner;
- Enacting and implementing legislation on procedures to form semi-autonomous regions;
- Enacting and implementing legislation establishing an Independent High Electoral Commission;
- Provincial elections law; provincial council authorities; and a date for provincial elections;
- Enacting and implementing legislation addressing amnesty;

- Enacting and implementing legislation establishing a strong militia disarmament program to ensure that such security forces are accountable only to the central government and loyal to the Constitution of Iraq;
- Establishing supporting political, media, economic, and services committees in support of the Baghdad Security Plan;
- Providing three trained and ready Iraqi brigades to support Baghdad operations;
- Providing Iraqi commanders with all authorities to execute this plan and to make tactical and operational decisions, in consultation with U.S commanders, without political intervention, to include the authority to pursue all extremists, including Sunni insurgents and Shiite militias;
- Ensuring that the Iraqi Security Forces are providing even handed enforcement of the law;
- Ensuring that the Baghdad security plan will not provide a safe haven for outlaws;
- Reducing the level of sectarian violence in Iraq and eliminating militia control of local security;
- Establishing all of the planned joint security stations in neighborhoods across Baghdad;
- Increasing the number of Iraqi security forces units capable of operating independently;
- Ensuring that the rights of minority political parties in the Iraqi legislature are protected;
- Allocating and spending \$10 billion in Iraqi revenues for reconstruction projects, including delivery of essential services, on an equitable basis; and
- Ensuring that Iraq's political authorities are not undermining or making false accusations against members of the ISF.

The president must report to Congress in July and September of 2007 regarding the Iraqi government's progress toward meeting these benchmarks. If the president cannot certify that progress is being made toward any of these goals, he must submit revisions to the political, economic, regional, and military components of the "surge" strategy.

Additionally, if the president cannot certify that progress is being made, the Economic Support Funds included in this bill for Iraq will be withheld. However, the president is granted the authority to waive this restriction.

Several of the funding categories below were funded through multiple titles within the legislation. For the purposes of displaying totals, the amounts below reflect the combined amounts for the funding categories.

The bill also requires that General Petraeus testify before Congress prior to the president submitting the second report in September. It also requires independent assessments by the Comptroller General and a private sector entity on the progress towards these benchmarks and the capabilities of the Iraqi Security Forces.

#### Military Personnel (DOD)

- Army: \$8,853,350,000

The President's request (as amended) included \$8,510,270,000

Title I -- \$8,510,270,000

Title III -- \$343,080,000

- Navy: \$1,100,410,000

The President's request included \$692,127,000

Title I -- \$692,127,000

Title III -- \$408,283,000

- Marine Corps: \$1,495,827,000

The President's request included \$1,386,871,000

Title I -- \$1,386,871,000

Title III -- \$108,956,000

- Air Force: \$1,218,587,000

The President's request (as amended) included \$1,101,287,000

Title I -- \$1,079,287,000

Title III -- \$139,300,000

- Army Reserve: \$147,244,000

The President's request included \$147,244,000

*\*Note: This account was funded at \$171,785,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$147,244,000

Title III -- \$0

- Navy Reserve: \$86,023,000

The President's request included \$72,800,000

Title I -- \$77,800,000  
Title III -- \$8,223,000

- Marine Corps Reserve: \$5,660,000

The President's request included \$0

Title I -- \$0  
Title III -- \$5,660,000

- Air Force Reserve: \$11,573,000

The President's request included \$3,000,000

Title I -- \$5,500,000  
Title III -- \$6,073,000

- Army National Guard: \$545,286,000

The President's request included \$436,025,000

Title I -- \$436,025,000  
Title III -- \$109,261,000

- Air Force National Guard: \$44,033,000

The President's request included \$0

Title I -- \$24,500,000  
Title III -- \$19,533,000

#### Operations and Maintenance (DOD)

\*Note: \$456,400,000 maybe used from this account to fund the Commander's Emergency Response Program.

- Army: \$20,373,379,000

The President's request (as amended) included \$20,423,379,000

Title I -- \$20,373,379,000  
Title III -- \$0

➤ Navy: \$4,676,670,000

The President's request (as amended) included \$5,040,482,000

*\*Note: This account was funded at \$4,652,129,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$4,652,670,000

Title III -- \$24,000,000

➤ Marine Corps: \$1,146,594,000

The President's request included \$1,401,594,000

Title I -- \$1,146,594,000

Title III -- \$0

➤ Air Force: \$6,650,881,000

The President's request (as amended) included \$7,035,881,000

Title I -- \$6,650,881,000

Title III -- \$0

➤ Defense-Wide: \$2,714,487,000

\$25,000 may be used for the Combatant Commander Initiative Fund and \$200,000,000 may be used for payments to reimburse Pakistan, Jordan, and other key cooperating nations for logistical, military and other support provided to U.S. military operations.

The President's request (as amended) included \$3,279,307,000

Title I -- \$2,714,487,000

Title III -- \$0

➤ Army Reserve: \$74,049,000

The President's request included \$74,049,000

Title I -- \$74,049,000

Title III -- \$0

➤ Navy Reserve: \$111,066,000

The President's request included \$111,066,000



Title I: \$111,066,000

Title III -- \$0

- Marine Corps Reserve: \$13,591,000

The President's request included \$13,591,000

Title I -- \$13,591,000

Title III -- \$0

- Air Force Reserve: \$10,160,000

The President's request included \$10,160,000

Title I -- \$10,160,000

Title III -- \$0

- Army National Guard: \$83,569,000

The President's request included \$83,569,000

Title I -- \$83,569,000

Title III -- \$0

- Air National Guard: \$38,429,000

The President's request included \$38,429,000

Title I -- \$38,429,000

Title III -- \$0

## Funds

- Afghanistan Security Forces Fund (DOD): \$5,906,400,000

The President's request included: \$5,906,400,000

\*Note: Supervision and administration costs may be obligated at the time a construction contract is awarded.

Title I -- \$5,906,400,000

Title III -- \$0

- Iraq Security Forces Fund (DOD): \$3,842,300,000

Up to \$155,500,000 may be used to provide assistance to support the disarmament, demobilization, and reintegration of militias and illegal armed groups.

\*Note: Supervision and administration costs may be obligated at the time a construction contract is awarded.

The President's request included \$3,842,300,000

Title I -- \$3,842,300,000

Title III -- \$0

➤ Iraq Freedom Fund (DOD): \$355,600,000

Up to \$50 million may be used for the Task Force to Improve Business and Stability Operations in Iraq.

The President's request (as amended) included \$565,600,000

Title I -- \$355,600,000

Title III -- \$0

➤ Joint Improved Explosive Device Defeat Fund (DOD): \$2,432,800,000

The President's request included \$2,432,800,000

Title I: \$2,432,800,000

Title III -- \$0

➤ Strategic Reserve Readiness Fund (DOD): \$1,615,000,000

The President's request included \$0

*\*Note: This account was funded at \$2 billion in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$1,615,000,000

Title III -- \$0

Procurement (DOD):

➤ Aircraft, Army: \$619,750,000

The President's request included \$627,750,000

Title I: \$619,750,000

Title III: \$0

➤ Missile, Army: \$111,473,000

The President's request included \$160,173,000

Title I: \$111,473,000

Title III -- \$0

➤ Weapons and Tracked Combat Vehicles, Army: \$3,404,315,000

The President's request (as amended) included \$3,502,315,000

Title I -- \$3,404,315,000

Title III -- \$0

➤ Ammunition, Army: \$681,500,000

The President's request included \$681,500,000

Title I -- \$681,500,000

Title III -- \$0

➤ Other, Army: \$11,076,137,000

The President's request (as amended) included \$10,946,687,000

Title I -- \$9,859,137,000

Title III -- \$1,217,000,000

➤ Aircraft, Navy: \$1,090,287,000

The President's request (as amended) included \$730,713,000

Title I -- \$1,090,287,000

Title III -- \$0

➤ Weapons, Navy: \$163,813,000

The President's request included \$171,813,000

Title I -- \$163,813,000

Title III -- \$0

➤ Ammunition, Navy and Marines: \$159,833,000

The President's request included \$159,833,000

Title I -- \$159,833,000

Title III -- \$0

➤ Other, Navy: \$748,749,000

The President's request (as amended) included \$745,425,000

Title I -- \$618,709,000

Title III -- \$130,040,000

➤ Procurement, Marine Corps: \$2,252,749,000

The President's request (as amended) included \$2,055,715,000

Title I -- \$989,389,000

Title III -- \$1,263,360,000

➤ Aircraft, Air Force: \$2,106,468,000

The President's request (as amended) included \$1,726,336,000

Title I -- \$2,106,468,000

Title III -- \$0

➤ Missile, Air Force: \$94,900,000

The President's request included \$140,300,000

Title I -- \$94,900,000

Title III -- \$0

➤ Ammunition, Air Force: \$6,000,000

The President's request included \$95,800,000

Title I -- \$6,000,000

Title II -- \$0

➤ Other, Air Force: \$2,096,200,000

The President's request included \$2,092,754,000

Title I -- \$1,957,160,000

Title III -- \$139,040,000

➤ Defense-Wide: \$980,050,000

The President's request included \$979,380,000

Title I -- \$721,190,000

Title III -- \$258,860,000

Research, Development, Test and Evaluation (DOD):

➤ Army: \$100,006,000

The President's request included \$115,976,000

Title I -- \$100,006,000

Title III -- \$0

➤ Navy: \$298,722,000

The President's request included \$460,175,000

Title I -- \$298,722,000

Title III -- \$0

➤ Air force: \$187,176,000

The President's request included \$220,721,000

Title I -- \$187,176,000

Title III -- \$0

➤ Defense-Wide: \$512,804,000

The President's request included \$650,864,000

Title I -- \$512,804,000

Title III -\$0

Revolving and Management Funds (DOD):

➤ Defense Working Capital Funds: \$1,115,526,000

The President's request included \$1,315,526,000

*\*Note: \*Note: This account was funded at \$1,315,526,000 in the previous supplemental (HR 2206) passed by the House.*

Title I -- \$1,115,526,000

Title III -- \$0

➤ National Defense Sealift Fund: \$5,000,000

The President request included \$5,000,000

Title I -- \$5,000,000

Title III -- \$0

Other DOD Programs

This section of the bill does not include \$50,000,000 for the Medical Support Fund included in the President's request.

➤ Defense Health Program: \$3,001,853,000 (President's request included \$1.073 billion.)

*\*Note: This account was funded at \$3,251,853,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$1,123,147,000

Title III -- \$1,878,706,000

➤ Drug Interdiction and Counter-Drug Activities (Defense): \$254,665,000 million

President's request: \$259,115,000

No more than \$60 million may be used for Pakistan and Afghanistan and the funds may be spent in addition to support provided by the individual governments.

Title I -- \$254,665,000

Title III -- \$0

Military Construction (DOD)

➤ Army: \$1,255,890,000

The President's request (as amended) included \$1,289,290,000

Title I -- \$1,255,890,000

Title II -- \$0

➤ Navy and Marine Corps: \$370,990,000

The President's request (as amended) includes \$390,500,000.

Title I -- \$370,990,000

Title III -- \$0

- Air Force: \$43,300,000

The President's request includes \$60,200,000

Title I -- \$43,300,000

Title III - \$0

#### Related Agencies

- Intelligence Community Management Account: \$71,726,000

The President's request included \$66,789,000 million.

Title I -- \$71,726,000

Title III -- \$0

#### Additional Legislative Provisions

- Prohibits funds in the bill to be used to finance programs denied by Congress in fiscal years 2006 or 2007. (Title I)
- Provides \$750,000 from appropriated funds to commission a private sector entity, which is a 501(c)(3), to provide a report on (1) the readiness of the Iraqi Security Forces (ISF), (2) the training, equipping, command, control and intelligence capabilities of the ISF, and (3) the likelihood that the continued support of U.S. troops will contribute to the readiness of the ISF to fulfill its mission. The report shall be completed within 120 days. (Title I)
- Amends the FY 2007 Defense Appropriations bill (PL 109-289) to allow funding to purchase 287 light and heavy armored vehicles for force protection. (Title I)

*\*Note: Current law allows the funds to purchase 20 vehicles.*

- Prohibits funds from being used to establish a permanent military installation for the purpose of stationing United States Armed Forces in Iraq. (Title III)
- Prohibits funds from being used to exercise United States control over any oil resource in Iraq. (Title III)
- Prohibits funding to be used in contravention of torture laws enacted. (Title III)

- Requires the Secretary of Defense to report to congressional committees on the “individual transition readiness assessments by unit of Iraq and Afghan security forces.” (Title III)
- Requires the Director of the Office of Management and Budget to submit a report to congressional committees on the proposed use of funds within the Iraq Security Forces Fund and Afghanistan Security Forces Fund. (Title III)
- Requires the Secretary of Defense to inspect within 180 days each military treatment facility, military housing for medical hold personnel and military housing for medical holdover personnel to ensure the facilities meet acceptable standards. If deficiencies are found, the commander of the facility shall submit a plan to correct the deficiency and the facility shall be re-inspected within 180 days. (Title III)
- Provides a Medal of Honor to Woodrow W. Keeble for Valor during the Korean War and waives any applicable time limitations. (Title III)

#### Legal Activities (DOJ)

- Salaries and Expenses: \$1,648,000

Title I -- \$1,648,000

Title III -- \$0

#### United States Attorneys (DOJ)

- Salaries and Expenses: \$5 million

Title I -- \$5 million

Title III -- \$0

#### United States Marshals Service (DOJ)

- Salaries and Expenses: \$6.45 million

Title I -- \$6.45 million

Title III -- \$0

#### National Security Division (DOJ)

- Salaries and Expenses: \$1,736,000

Title I -- \$1,736,000

Title III -- \$0

#### Federal Bureau of Investigation (DOJ)



- Salaries and Expenses: \$258,000,000

\$10 million is required to be used to implement the findings and recommendations of the DOJ IG report entitled: “A Review of the Federal Bureau of Investigation’s Use of National Security Letters.”

*\*Note: This account was funded at \$268,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$118,260,000

Title III -- \$139,740,000

#### Drug Enforcement Administration (DOJ)

- Salaries and Expenses: \$12,166,000

Title I -- \$8,468,000

Title III -- \$3,698,000

#### Bureau of Alcohol, Tobacco, Firearms and Explosives (DOJ)

- Salaries and Expenses: \$4 million

Title I -- \$4 million

Title III -- \$0

#### Federal Prison System (DOJ)

- Salaries and Expenses: \$17 million

Title I -- \$17 million

Title III -- \$0

#### National Nuclear Nonproliferation (DOE)

- Defense Nuclear Nonproliferation: \$63,000,000

*\*Note: This account was funded at \$150,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$63,000,000

Title III -- \$0

#### Departmental Management and Operations (DHS)

- Analysis and Operations: \$8,000,000

*\*Note: This account was funded at \$3,251,853,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$8,000,000

#### Customs and Border Protection (DHS)

- Salaries and Expenses: \$75,000,000

Bill language requires these funds to be used to increase the number of inspectors, intelligence analysts and support staff responsible for container inspection. Additionally, up to \$5,000,000 is required to be transferred to Salaries and Expenses for the Federal Law Enforcement Training Center.

*\*Note: This account was funded at \$115,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$75,000,000

- Air and Marine Interdiction, Operations, Maintenance and Procurement: \$75,000,000

*\*Note: This account was funded at \$120,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$75,000,000

- U.S. Immigration and Customs Enforcement (salaries and expenses): \$6,000,000

*\*Note: This account was funded at \$10,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- 6,000,000

#### Transportation Security Administration (DHS)

- Aviation Security: \$390,000,000

*\*Note: This account was funded at \$970,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$390,000,000

- Federal Air Marshals: \$5,000,000 (House passed H.R. 1591: \$0)

Title I -- \$0

Title III -- \$5,000,000

#### National Protection and Programs (DHS)

- Infrastructure Protection and Information Security: \$24,000,000

*\*Note: This account was funded at \$37,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$24,000,000

- Office of Health Affairs: \$8,000,000 (\$5,500,000 is for nuclear event public health assessment and planning)

*\*Note: This account was funded at \$15,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$8,000,000

#### Federal Emergency Management Agency (DHS)

- Salaries and Expenses: \$14,000,000

*\*Note: This account was funded at \$25,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$14,000,000

- State and Local Programs: \$247,000,000 (House passed H.R. 1591: \$415,000,000)

*\*Note: This account was funded at \$552,500,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$247,000,000

- Emergency Management Performance Grants: \$50,000,000

*\*Note: This account was funded at \$100,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$50,000,000

#### Domestic Nuclear Detection Office (DHS)

- Systems Acquisition: \$100,000,000

*\*Note: This account was funded at \$223,500,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$100,000,000

- Research and Development: \$35,000,000

*\*Note: This account was funded at \$39,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$35,000,000

#### United States Citizenship and Immigrations Services

- \$8,000,000

*\*Note: This account was funded at \$10,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$8,000,000

#### Science and Technology

- Research, development, acquisition, and operations for air cargo security: \$5,000,000

*\*Note: This account was funded at \$10,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$0

Title III -- \$5,000,000

#### Additional Legislative Provisions

- Prohibits the funding from being used to carry out Section 872 of PL 107-296, which allows the Secretary of DHS to “allocate or reallocate functions among the officers of the Department, and may establish, consolidate, alter, or discontinue organizational units within the Department”.
- Requires the Secretary of DHS to link award fees to successful acquisition outcomes on all contracts that that provide award fees.

#### House of Representatives (Leg. Branch)

- Salaries and Expenses, Allowances and Expenses: \$6,437,000 (Title III)

These funds are for business continuity and disaster recovery.

- Government Accountability Office: \$374,000 (Title III)

#### Military Construction (DOD) (Title III)

- Department of Defense Base Closure Account of 2005: \$3,136,802,000

The President’s request includes \$0

#### Administration of Foreign Affairs (DOS)

- Diplomatic and Consular Programs: \$870,658,000

Title I -- \$836,555,000

Title III -- \$34,103,000

- Office of Inspector General: \$36,500,000 (Title III)

Requires the transfer of \$35 million to the IG for Iraq Reconstruction

Title I -- \$35,000,000

Title III -- \$1,500,000

- Educational and Cultural Exchange Programs: \$20,000,000

Title I -- \$20,000,000

Title III -- \$0

#### International Organizations (DOS)

- Contributions for International Peacekeeping Activities: \$283,000,000

*\*Note: This account was funded at \$288,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

Title I -- \$283,000,000

Title III -- \$0

➤ Contributions for International Organizations: \$50,000,000

Title I -- \$0

Title III -- \$50,000,000

Related Agency

➤ Broadcasting Board of Governors, International Broadcasting Operations: \$10,000,000

These funds are for broadcasting activities in the Middle East.

Title I -- \$10,000,000

Title III -- \$0

United States Agency for International Development

➤ Child Survival and Health Programs Fund: \$161,000,000

Title I -- \$161,000,000

Title II -- \$0

➤ International Disaster and Famine Assistance: \$165,000,000

Title I -- \$105,000,000

Title III -- \$60,000,000

➤ Operating Expenses: \$8,700,000

Title I -- \$5,700,000

Title III -- \$3,000,000

➤ Operating Expenses, Inspector General: \$3,500,000

Title I -- \$0

Title III -- \$3,500,000

Bilateral Economic Assistance

➤ Economic support Fund: \$2,624,300,000

Title I -- \$2,502,000,000

Title III -- \$122,300,000

Allows the transfer of \$110 million to the Economic Support Fund for programs in Pakistan. Transfers may come from Personnel accounts for the Army and National Guard. Also, no funds may be made available to Lebanon until the Secretary of State reports to Congress on Lebanon's economic reform plan and progress on the benchmarks that have been agreed upon by the U.S. and Lebanon.

Funds for debt restructuring may be used to assist Liberia in retiring its debt.

Funds cannot be used for the Government of Pakistan until the Secretary of State submits a report to Congress on the oversight mechanisms, performance benchmarks and implementation processes for the funds.

*\*Note: This account was funded at \$2,649,300,000 in the previous supplemental (H.R. 2206) passed by the House.*

➤ Democracy Fund: \$260,000,000

Title I -- \$255,000,000

Title III -- \$5,000,000

➤ Assistance for Eastern Europe and the Baltic States: \$214,000,000

Title I -- \$214,000,000

Title III -- \$0

Department of State

➤ International Narcotics Control and Law Enforcement: \$252,000,000

Title I -- \$210,000,000

Title III -- \$42,000,000

Prohibits funding for military or police assistance to Lebanon until the Secretary of State submits a report to Congress on procedures established to determine eligibility of members and units of the armed forces and police forces of Lebanon.

*\*Note: This account was funded at \$257,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

➤ Migration and Refugee Assistance: \$130,500,000 (House passed H.R. 1591: \$111,500,000)

Title I -- \$71,500,000  
Title III -- \$59,000,000

\$5 million shall be made available to rescue Iraqi scholars

- U.S. Emergency Refugee and Migration Assistance Fund: \$55,000,000 (House passed H.R. 1591: \$35,000,000)

Title I -- \$30,000,000  
Title III-- \$25,000,000

- Nonproliferation, Antiterrorism, Demining and Related Programs: \$57,500,000 (House passed H.R. 1591: \$87,500,000)

Title I -- \$27,500,000  
Title III -- \$30,000,000

#### Department of Treasury

- International Affairs Technical Assistance: \$2,750,000

Title I -- \$2,750,000  
Title III -- \$0

#### Military Assistance (DOS)

- Foreign Military Financing Program: \$265,000,000 (House passed H.R. 1591: \$260,000,000)

Title I -- \$220,000,000  
Title III -- \$45,000,000

- Peacekeeping Operations: \$230,000,000 (House passed H.R. 1591: \$225,000,000)

Title I -- \$190,000,000  
Title III -- \$40,000,000

#### Walter Reed Closure (Title I)

- Prevents Walter Reed Army Medical Center from being closed down as part of the BRAC process until equivalent facilities are available at Bethesda Naval Medical Center or Fort Belvoir Community Hospital and requires Walter Reed to be adequately funded to maintain the maximum level of inpatient and outpatient services.

#### Department of Agriculture (Title III)



- PL 480 Title II Grants (food aid) -- \$460,000,000

#### Federal Emergency Management Agency (DHS)

- Disaster Relief: \$3,400,000,000 (Title II)

## **Title IV – Additional Hurricane Disaster Relief and Recovery**

#### Department of Commerce

- National Oceanic and Atmospheric Administration (NOAA) Operations, Research and Facilities: \$110,000,000

These funds shall be used for expenses related to the consequences of Hurricanes Katrina and Rita on the shrimp and fishing industries.

#### Department of Justice

- State and local law enforcement assistance: \$50,000,000

#### National Aeronautics and Space Administration

- Exploration Capabilities: \$20,000,000

*\*Note: This account was funded at \$35,000,000 in the previous supplemental (H.R. 2206) passed by the House.*

#### Department of Defense – Civil Department of the Army

- Construction: \$25,300,000 (House passed H.R. 1591: \$37,080,000)
- Flood Control and Coastal Emergencies: \$1,407,000,000 (House passed H.R. 1591: \$1,300,000,000)

The Chief of Engineers shall provide a monthly report to Congress on the allocation and obligation of these funds.

#### Federal Emergency Management Agency (DHS)

- Disaster Relief: \$710,000,000

#### Department of Education

- Hurricane Education Recovery: \$30,000,000 (House passed H.R. 1591: \$0)
- Expands the authorization of PL 109-148 (Section 102(d)) to provide funding for recruiting and compensating principals, teachers, and other school administrators for positions in reopening public elementary and secondary schools impacted by Hurricanes Katrina and Rita. Additionally, that State, along with local interests, shall develop a rating system for performance bonuses. If one is not developed, the State shall notify Congress and establish the rating system.
- Higher Education: \$30,000,000

These funds shall be used to help defray the costs of institutions of higher education that were forced to close for at least 30 days between August 25, 2005 and January 1, 2006 as result of damage from hurricanes in the Gulf of Mexico.

#### Department of Housing and Urban Development (HUD)

- Office of the Inspector General: \$7,000,000

These funds are to be used for expenses related to Hurricanes Katrina and Rita.

#### Administration for Children and Families (HHS)

Extends the funds available for the Social Services Block Grant until the end of fiscal year 2009

#### Department of Transportation

- Emergency Relief Highways: \$871,022,000

*\*Note: This account was funded at \$682,942,000 in the previous supplemental (H.R. 2206) passed by the House.*

- Formula Grants: \$35 million

## **Title V – Other Emergency Appropriations**

#### FEMA

- Provides \$40 million in response to the Kansas tornadoes (FEMA-1699-DR)

#### Army Corps of Engineers

- Investigations: \$8,165,000
- Construction: \$11,200,000

*\*Note: This account was funded at \$500,000 in the previous supplemental (H.R. 2206) passed by the House.*

- Operation and Maintenance: \$3,000,000
- Flood Control and Emergencies: \$153,300,000

#### Department of the Interior

- Water and related resources: \$18,000,000
- Resource Management (USFWS): \$7,398,000

These funds are for the detection of highly pathogenic avian influenza in wild birds.

- Surveys, Investigations, and Research (USGS): \$5,270,000

These funds are for the detection of highly pathogenic avian influenza in wild birds.

- Operation of the National Park System (NPS): \$525,000

These funds are for the detection of highly pathogenic avian influenza in wild birds.

#### Forest Service (USDA)

- National Forest System: \$12,000,000

#### Department of Health and Human Services (HHS)

- Mine Safety (CDC): \$13,000,000

#### Legislative Branch

- Capitol Power Plant: \$50,000,000

These funds are for utility tunnel repairs and asbestos abatement.

- Capitol Police: \$10,000,000

#### Veterans Health Administration (VA)

- Medical Services: \$466,778,000 (House passed H.R. 1591: \$414,982,000)

The President's request did not include funding for this account.

- Medical Administration: \$250,000,000 (House passed H.R. 1591: \$256,300,000)

The President's request did not include funding for this account.

- Medical Facilities: \$595,000,000

- Medical and Prosthetic Research: \$32,500,000 (House passed H.R. 1591: \$35,000,000)

These funds shall be used for research relating to Operation Iraqi Freedom / Enduring Freedom survivors.

The President's request did not include funding for this account.

#### Departmental Administration (VA)

- General Operating Expenses: \$83,200,000 (House passed H.R. 1591: \$62,000,000)

- Information Technology Systems: \$35,100,000 (House passed H.R. 1591: \$35,000,000)

The President's request did not include funding for this account.

- Construction, Minor Projects: \$326,000,000 (House passed H.R. 1591: \$260,000,000)

The President's request did not include funding for this account.

- Allows the Secretary of Veterans Affairs to convey to the State of Texas the parcel of real property comprising the location of Marlin, Texas.

## **Title VI – Other Matters**

#### Pension Provisions

- Allows certain union-sponsored pension plans (providing benefits to union staff employees) to retroactively be classified as a multiemployer pension plan in order to avoid stricter pension funding obligations applicable to most private sector single-employer defined benefit plans. In addition, these plans would be eligible for a cash refund for premiums paid at the higher rate that applies to single employer plans. (Section 5609)

*\*Note: The Pension Benefit Guaranty Corporation (PBGC) estimates that this provision will increase PBGC's liabilities by \$2 to \$3 million.*

- Amends the Internal Revenue Code (IRC) to allow certain over-funded pension plans to use excess pension funds to pre-fund for retiree health care benefits for a longer period of time by enabling one company to reduce its transfer amounts over the near term relative

to what current law would require. The result would allow the company to earn more investment income from the equity returns in the pension plan. (Sections 5610 & 5611)

- Provides an additional year of funding relief (beyond that already provided in the Pension Protection Act) to pension plans covering non-pilot employees at one airline. (Section 5612)

*\*Note: The PBGC estimates that this provision will increase its potential liability by \$70 million.*

- Allows certain airlines to use a more favorable interest rate to calculate the amount of money they must contribute to their pension plans; the relief provided in the Supplemental goes beyond the compromise reached in last year's Pension Protection Act, and affords relief to plans that have not taken steps to freeze their plans.

*\*Note: This section is an addition to the pension language considered in H.R. 2206.*

#### Farm Service Agency (USDA)

- Salaries and Expenses: \$37,500,000

#### Department of Homeland Security

- U.S. Coast Guard, Retired Pay: \$30,000,000
- Requires the Coast Guard to include criteria in a contract or subcontract (See section 6402 for a complete list of requirements). Additionally, prohibits \$650 million in Deepwater funds from being obligated until the Appropriations Committees approve a plan outlined in Section 4402 (c)(1).
- Coast Guard Patrol Boats: \$30,000,000

#### Additional Legislative Provisions

- At least \$4,000,000 that was previously made available in FY 2007 for the FDA shall be for the FDA Office of Women's Health.
- Requires that federal employees at the National Energy Technology Laboratory shall be classified as "inherently governmental." This is new language that was not included in the previous supplemental considered by the House of Representatives.
- Prohibits funding for the Office of National Drug Control Policy to be used for any reorganization of the offices without the approval of the Committee on Appropriations.
- Allows the National Archives to obligate funds for the Public Interest Declassification Board.

- Requires the SBA to provide disaster assistance, physical and economic injury disaster loans to Kansas businesses impacted by the tornadoes. (Section 6308)

#### National Institutes of Health (HHS)

- Transfers \$49,500,000 in the Continuing Appropriations Resolution, 2007 (PL 109-289) from the National Institute of Allergy and Infectious Diseases to the Public Health and Social Services Emergency Fund.
- Provides \$9,666,000 from PL 109-289 to the Women's Bureau.
- Provides \$23,000,000 from PL 109-289 for poison control centers.

#### Payments to Widows and Heirs of Deceased Members of Congress (Leg. Branch)

- Gloria W. Norwood: \$165,200
- James McDonald, Jr.: \$165,200

National Council on Disability: \$300,000 (House passed H.R. 1591: \$0)

#### Department of Housing and Urban Development

- Office of Federal Housing Enterprise Oversight: \$6,150,000

#### Department of Transportation

- Allows funds appropriated to the DOT to be expended to grant authority to a Mexican motor carrier to operate beyond U.S. municipalities and commercial zones on the U.S.–Mexican border as long as it is first tested in a pilot program, the program complies with PL 107-87, and comparable authority is provided to carriers within the U.S. to operate in Mexico. Prior, during, and after the start of the pilot program, the Inspector General of the Department of Transportation must submit a report to Congress regarding whether there are sufficient mechanisms in place to apply Federal motor carrier safety standards and regulations to the Mexican motor carriers that are allowed to operate beyond U.S. municipalities and zones. (Section 6901)

## **Title VII – Elimination of SCHIP Shortfall and Other Health Matters**

- Provides “such sums as may be necessary, but not to exceed \$650,000,000 for fiscal year 2007” to provide additional allotments to remaining shortfall states.

- Provides authority to any State that is operating a Pharmacy Plus waiver, which would otherwise expire on June 20, 2007, to continue to operate the waiver through December 31, 2009.
- Prohibits the Secretary of HHS from finalizing or implementing the proposed rule (or similar provisions) published on January 18, 2007 in the Federal Register or promulgate any rule restricting payments for graduate medical education under the Medicaid program.

This rule would “Clarify that entities involved in the financing of the non-Federal share of Medicaid payments must be a unit of government; clarify the documentation required to support a certified public expenditure; limit reimbursement for health care providers that are operated by units of government to an amount that does not exceed the provider’s cost; require providers to receive and retain the full amount of total computable payments for services furnished under the approved State plan; and make conforming changes to provisions governing the State Child Health Insurance Program (SCHIP). The provisions of this regulation apply to all providers of Medicaid and SCHIP services, except that Medicaid managed care organizations and SCHIP providers are not subject to the cost limit provision of this regulation. Except as noted above, all Medicaid payments (including disproportionate share hospital payments) made under the authority of the State plan and under Medicaid waiver and demonstration authorities are subject to all provisions of this regulation.”

Link to proposed rule:

<http://a257.g.akamaitech.net/7/257/2422/01jan20071800/edocket.access.gpo.gov/2007/pdf/07-195.pdf>

## **Title VIII – Fair Minimum Wage and Tax Relief**

### **Minimum Wage**

The War Funding Supplemental includes the minimum wage bill accompanied by a final agreement for a tax relief package designed to offset the cost of the minimum wage increase on the business community.

The House and the Senate both passed legislation increasing the minimum wage by \$2.10, from \$5.15 to \$7.25. Unlike the House version, the Senate minimum wage bill incorporated \$12.2 billion of tax relief and revenue increases to soften the impact of the minimum wage increase on small businesses. The House passed a \$1.3 billion small-business tax relief package as a stand-alone bill, H.R. 976, on February 16, 2007.

The final tax package included in the Conference Report for the supplemental spending bill includes \$4.84 billion in tax relief and \$4.9 billion in revenue increases.

### **Tax Relief**

- The final agreement extends the **Work Opportunity Tax Credit (WOTC)** through August, 31, 2011, and expands its coverage to include targeted groups of veterans, high-risk youth, and rural counties that are losing population. While the Senate-passed version extended WOTC through 2012, the House-passed version only extended it through 2008.

**JTC projected score:** The provision would cost approximately \$2.6 billion over 10 years.

- **Increases and extends expensing for small businesses.** The final tax package includes the House-passed extension and expansion of Section 179 expensing and the Senate-passed one-year extension of expanded Section 179 expensing for GO Zone property. Under current law, small businesses may expense up to \$112,000 of investments in depreciable assets. The deduction is currently phased out when investments exceed \$450,000 (indexed for inflation). After 2009, the deduction is set to decline to \$25,000 and the phase-out threshold is set to decline to \$200,000.

The Conference Report increases the deduction to \$125,000 and increases the phase-out threshold to \$500,000, indexes these amounts for inflation beginning in 2008 through the end of 2010, and extends the higher deduction and phase-out threshold through 2010.

Higher expensing limits for qualified Section 179 Gulf Opportunity Zone property would expire on December 31, 2007, under current law. The Conference Report extends this higher limit for another year (through December 31, 2008).

**JTC projected score:** These provisions lower revenue as compared to current law by \$70 million from 2007 to 2017.

*\*Note: The deduction was set at \$100,000 with the phase-out at \$400,000 in 2003. The deduction has increased to \$112,000 with a phase-out of \$450,000 in 2007 because of inflation.*

- **Prevents reduction in tax credit for Social Security taxes paid with respect to employee cash tips.** The final agreement includes the House-passed language. Under current law, a tax credit is provided to an employer for employer-paid FICA taxes for tips an employee receives that exceed the minimum wage. This provision applies only to tipped employees in the food service industry.

This provision calculates this tax credit based on the federal minimum wage as of January 1, 2007. The impact of this provision is to prevent the value of the tax credit from being reduced if the minimum wage increases.

**JTC projected score:** This provision is projected by the Joint Committee on Taxation as reducing federal revenues by \$457 million over 10 years when passed in conjunction with an increase in the minimum wage.



- **Family business tax simplification.** The measure allows a husband and wife joint venture to elect to not be treated as a partnership for tax purposes.

**JTC projected score:** This provision has a “negligible revenue effect” according to the Joint Committee on Taxation. (Section 6)

- **Includes House-passed language allowing individual and corporate taxpayers to claim the work opportunity tax credit and the credit for taxes paid for employee cash tips against the alternative minimum tax (AMT).** According to JTC projections, this provision lowers revenue as compared to current law by \$617 million from 2007 to 2017.
- **Extends the deadline (from 2008 to 2010) for placing in service certain low-income housing projects in areas affected by the 2005 Gulf Coast hurricanes.** Extending the sunset allows additional time for project developers to use the added credits Congress authorized in the GO Zone. If these projects are not placed in service by the end of 2008, the States may allocate them for other LIHTC projects, but are not required by federal law to reallocate them to the same project originally awarded the credits. The extension helps ensure that qualifying low-income housing is built as quickly as possible in the GO Zone. The House passed similar legislation, H.R. 1562, on March 27, 2007. JTC projects these provisions would cost \$237 million from 2007 to 2017.

## **S Corp Reforms**

The Conference Report includes several reforms of the rules governing S-Corps:

- **Capital Gain Not Treated as Passive Investment Income**

An S corporation is subject to corporate-level tax, at the highest corporate tax rate, on its excessive net passive income if the corporation has (1) accumulated earnings and profits at the close of the taxable year and (2) has gross receipts more than 25 percent of which are passive investment income. In addition, an S corporation election is terminated whenever the S corporation has accumulated earnings and profits at the close of each of three consecutive taxable years and has gross receipts for each of those years more than 25 percent of which are passive investment income. H.R. 1591 eliminates gains from sales or exchanges of stock or securities as an item of passive investment income. This provision of H.R. 1591 applies to taxable years beginning after the date of enactment.

*\*Note: This provision is estimated to cost \$146 million over five years and \$361 million over ten years.*

- **Treatment of Bank Director Shares**

An S corporation may have no more than 100 shareholders and may have only one outstanding class of stock. An S corporation has one class of stock if all outstanding shares of stock confer identical rights to distribution and liquidation proceeds. National and state banking laws require that a director of a bank own stock. In some cases, a bank enters into an agreement under which the bank (or holding company) will reacquire the stock upon the director's ceasing to hold the office of director, at the price paid by the

director for the stock. H.R. 1591 clarifies that qualifying director shares are not treated as a second class of stock for purposes of subchapter S. This provision of H.R. 1591 applies to taxable years beginning after December 31, 2006.

*\*Note: This provision is estimated to cost \$87 million over five years and \$201 million over ten years.*

➤ **Treatment of Banks Changing from Reserve Method of Accounting**

A financial institution which uses the reserve method of accounting for bad debts may not elect to be an S corporation. If a financial institution changes from the reserve method of accounting, there is taken into account for the taxable year of the change adjustments to taxable income necessary to prevent amounts from being duplicated or omitted by reason of change. These adjustments are subject to two levels of taxation. H.R. 1591 allows a bank which changes from the reserve method of accounting for bad debts to elect to take into account all adjustments the year before it changes to an S corporation. Adjustments taken into account the year before the corporation changes to an S corporation are only subject to corporate-level taxation. This provision of H.R. 1591 applies to taxable years beginning after December 31, 2006.

*\*Note: This provision is estimated to cost \$83 million over five years and \$199 million over ten years.*

➤ **Treatment of Disposition of an Interest in Qualified Subchapter S Subsidiary**

If a subsidiary of an S corporation ceases to be a qualified subchapter S subsidiary ("QSub") the subsidiary is treated as a new corporation acquiring all its assets immediately before such cessation from the parent S corporation in exchange for its stock. H.R. 1591 provides that where the disposition of stock of a QSub results in the termination of the QSub election, the disposition is treated as a disposition of an undivided interest in the assets of the QSub (based on the percentage of the stock disposed of) followed by a deemed transfer to the QSub. This provision of H.R. 1591 applies to taxable years beginning after December 31, 2006.

*\*Note: This provision is estimated to cost \$19 million over five years and \$46 million over ten years.*

➤ **Elimination of Earnings and Profits Attributable to Pre-1983 Years**

This provision of H.R. 1591 provides in the case of any corporation which was not an S corporation for its first taxable year beginning after December 31, 1996, the accumulated earnings and profits of the corporation as of the beginning of the first taxable year beginning after the date of the enactment of this provision is reduced by the accumulated earnings and profits (if any) accumulated in a taxable year beginning before January 1, 1983, for which the corporation was an electing small business corporation under subchapter S. This provision of H.R. 1591 applies to taxable years beginning after the date of enactment.

*\*Note: This provision is estimated to cost \$13 million over five years and \$21 million over ten years.*

➤ **Deductibility of interest expense on indebtedness incurred by an acquiring business trust to acquire S corporation stock**

This provision of H.R. 1591 enables an electing small business trust (“ESBT”) to deduct interest expense it incurs when it borrows funds to purchase S corporation stock. All other taxpayers and qualified S corporation trusts are currently entitled to deduct interest incurred to acquire S corporation stock. The current disallowance of the deduction for such interest by an ESBT is reversed and given consistent treatment with other S corporation shareholders. This provision of H.R. 1591 applies to taxable years beginning after December 31, 2006.

*\*Note: This provision is estimated to cost \$18 million over five years and \$64 million over ten years.*

## **Revenue Raisers**

The Conference Report includes a number of provisions to offset the cost tax relief. In total, the provisions raise \$4.9 billion, which is \$55 million more than the overall cost of the bill.

- **Increases the age of minor children whose unearned income is taxed as if parent’s income.** Unlike the House-passed version which was specific to capital gains and dividends, the conference report incorporates the Senate-passed version that raises the age of dependents whose unearned income is taxed as if it is the parent’s income. The intent of this provision is to prevent wealthy parents from avoiding certain taxes by transferring assets to a dependent child.

**JTC projected score:** This provision increases revenue by \$1.4 billion from 2007 to 2017.

- Extends from 18 to 36 months the amount of time that interest and penalties accrue for unpaid taxes if the IRS has not sent notice of the taxpayer’s liability. The House-passed version extended it to 22 months.

**JTC projected score:** This provision increases revenue by \$2.4 billion from 2007 to 2017.

- Includes Senate-passed provision creating a new penalty for filing erroneous income tax refund claims.

**JTC projected score:** This provision increases revenue by \$98 million from 2007 to 2017.

- Includes Senate-passed provision extending and increasing penalties on tax preparers for understating taxpayer liability for all types of tax returns, as opposed to only income tax returns.

**JTC projected score:** This provision increases revenue by \$82 million from 2007 to 2017.

- Includes House-passed provision modifying the collection due process procedures for employment tax liabilities.

**JTC projected score:** This provision increases revenue by \$288 million from 2007 to 2017.

- Permanently extends existing IRS user fees. The fees are currently scheduled to be terminated after September 30, 2014.

**JTC projected score:** This provision increases revenue by \$90 million from 2007 to 2017.

- Increases penalties for sending bad checks and money orders to the IRS. The House passed this provision on April 17, 2007, as part of the Taxpayer Protection Act, H.R. 1677.

**JTC projected score:** This provision increases revenue by \$22 million from 2007 to 2017.

## **Title IX – Agriculture Assistance**

### Crop Disaster Assistance

- Provides “such sums as are necessary” for crop disaster assistance.
- This provision covers losses in 2005 or 2006 (or in 2007 prior to February 28).

*\*Note: According to CRS: “The two most recent supplemental appropriations ([P.L. 109-148](#) and [P.L. 109-234](#)) were provided in response to Hurricanes Katrina and Rita in the Gulf of Mexico and in preparation for a possible U.S. outbreak of avian influenza. [P.L. 109-148](#) provided \$1.17 billion to USDA, including \$1.076 for agricultural hurricane assistance.” (CRS: RL31095)*

- Producers that are eligible for losses in more than one year must elect to receive assistance for only one year.
- Payments may not exceed 95% of what the value of the crop would have been without the losses incurred (including crop insurance payments made to the producer).
- Producers are not eligible to receive assistance if they (1) have insurable crops, but have not purchased crop insurance; (2) have a non-insurable commodity, but have not filed the appropriate paperwork and paid the appropriate fees for non-insurable commodities; or

(3) were not in compliance with highly erodible land conservation and wetland conservation provisions.

- The Secretary shall make payments to eligible producers within 60 days of a producer's application. If payments are not made within 60 days, the Secretary is required to pay interest in addition to the payment.

#### Livestock Assistance

- Provides "such sums as are necessary" for livestock assistance for losses incurred between January 1, 2005 and February 28, 2007, including losses attributable to blizzards.
- Payments may not exceed 61% of the payment rate outlined in the Livestock Compensation Program.
- Livestock that is covered under this provision includes sheep, beef, dairy, goats, catfish, and "other animals designated by the Secretary as livestock."
- Producers that are eligible for losses in more than one year must elect to receive assistance for only one year.

#### Livestock Indemnity Payments

- Provides "such sums as are necessary" for a livestock indemnity program for producers that have incurred losses between January 1, 2005 and February 28, 2007.
- Producers that are eligible for losses in more than one year must elect to receive assistance for only one year.
- The rate for payment to a producer must be at least 26% of the market value of the livestock on the day prior to the death of the livestock.

#### Emergency Conservation Program (ECP)

- Provides \$16 million for the ECP, which includes cleanup and restoration for farm and agricultural lands.

*\*Note: The Emergency Conservation Program provides cost sharing assistance for debris removal; structures, restoration; farmland restoration; fence and grade repair; or for creating water conservation measures.*

#### Milk Income Loss Contract

- Extends the program from August to September 30, 2007.

*\*Note: this provision extends the MILC program for one month, which increases the baseline of the program significantly.*

#### Dairy Assistance

- Provides \$16 million for dairy producers for dairy production losses in disaster counties.

#### Low-Income Migrant and Seasonal Farm workers

- Provides \$16 million to low-income and seasonal farm workers.

*\*Note: In accordance with 42 U.S.C. 5177a, “the Secretary of Agriculture may make grants to public agencies or private organizations with tax exempt status that have experience in providing emergency services to low-income migrant and seasonal farm workers where the Secretary determines that a local, State or national emergency or disaster has caused low-income migrant or seasonal farm workers to lose income, to be unable to work, or to stay home or return home in anticipation of work shortages. Emergency services to be provided with assistance received under this section may include such types of assistance as the Secretary of Agriculture determines to be necessary and appropriate.”*

#### Farm Service Agency

- Provides \$30 million for salaries and expenses.

#### National Oceanic and Atmospheric Administration

- Provides \$60.4 million for salmon fishermen in California and Oregon (Klamath Basin) that experienced a fishery failure as a result of the drought.

*\*Note: SBA loans and Economic Development Administration (EDA) Economic Adjustment Grants have been available to the fishermen in the Klamath region.*

#### Wild land Fire Management

- Provides \$95 million for wild land fire management through the Department of the Interior and \$370 million through the Department of Agriculture.

#### Secure Rural Schools

- Provides a total of \$525 million, including \$425 million “to cover any shortfall for payments.”

#### **Staff Contact**

For questions or further information contact Shea Loper at (202) 226-2302.

